

Multiplier x Final Compensation x Years of Service

How Much? Formulas Determine Benefit Amounts

“How much money will I need? How much will I have?” Employees who have decided to retire ask these questions frequently. While SDRS members can estimate retirement needs by considering current financial obligations and making assumptions about future conditions, they can calculate with great accuracy how much they will receive in a monthly benefit from SDRS.

Formula Factors

Benefits are determined using formulas established in South Dakota law and comprising a member’s years of credited service, final average compensation and a multiplier. The goal of SDRS is that the resulting amount, when combined with his or her Social Security benefit, will equal 70 to 85 percent of a career member’s pre-retirement income.

Credited service is measured in years that a member has contributed to SDRS. If a member did not contribute to SDRS while working in a qualifying position, such as out-of-state public service, the member should contact SDRS to determine whether he or she can purchase the time as credited service from SDRS. Years for which members purchase credited service are included in the formula when calculating benefits.

Final average compensation is defined as the member’s average annual salary during the highest 12 consecutive quarters in the last 40 quarters of SDRS membership.

Multipliers Distinguish Formulas

According to the employee’s class of membership and dates of employment by a participating unit, SDRS uses one of several formulas to calculate benefits. The formulas differ in their multipliers. For Class A members the multiplier in the basic benefit is 1.55 percent. Reflecting Class B members’ higher contribution rates, which compensate for the lesser time of expected service, Class B multipliers are larger numbers.

The enhanced benefit formula, with

a multiplier of 1.625 percent for Class A members — and with larger multipliers for Class B members — is paid in addition to the base benefit and is used if the member was employed by an SDRS unit prior to July 1, 2002; purchased service prior to July 1, 2002, also qualifies for the enhanced benefit multiplier. The enhanced benefit passes on to members earnings from investment performance exceeding assumptions (see sidebar).

In addition to using various multipliers, for Class A members SDRS calculates benefits two ways, with the standard formula and the alternate formula. To determine a member’s benefit payment, SDRS selects the formula that results in the larger amount. **UpDate**

Class A Member *Standard Formula* ENHANCED BENEFIT

$$1.625\% \times \text{final average compensation} \times \text{years of credited service before July 1, 2002}$$

PLUS

STANDARD BENEFIT

$$1.55\% \times \text{final average compensation} \times \text{years of credited service after July 1, 2002}$$

Example

A member retires July 1, 2007 with 30 years of credited service and a final average compensation of \$40,000

ENHANCED BENEFIT

$$1.625\% \times \$40,000 \times 25 = \$16,250$$

PLUS

STANDARD BENEFIT

$$1.55\% \times \$40,000 \times 5 = \$3,100$$

equals a retirement benefit of \$19,350 per year, or \$1,612.50 per month

Benefit Improvements Tied to Long-term Investment Performance

When SDRS’ investments yield a higher-than-expected return (presently 7.5 percent), the additional money is deposited in the system’s reserve to provide a cushion in years of low investment return and to fund future benefit improvements. When there is enough money in the reserve to cover the cost of improvements, the SDRS Board of Trustees recommends that the South Dakota Legislature approve a benefit increase.

To calculate improved benefits, SDRS uses an enhanced benefit formula with a multiplier larger than that in the base benefit formula. To qualify for the enhanced formula, a member must have contributed to the system during specified dates. Presently members contributing to the system prior to July 1, 2002, qualify for the enhanced benefit; purchased service prior to July 1, 2002, also qualifies for the enhanced benefit multiplier.

SDRS’ prudent management of investment returns is the chief source of the system’s stability. By accumulating funds in advance of increasing benefits, SDRS ensures that it can meet its financial obligations to its members.

Web Calculator Helps Members Plan for Retirement

AN SDRS MEMBER in her 40s just got promoted. "How much will the salary increase affect my SDRS benefit?" she asks.

"I TAUGHT IN ANOTHER STATE for three years," says a schoolteacher who plans to retire next summer. "How much will it raise my SDRS benefit if I purchase credited service for those years?"

"I WANT TO SPEND MY RETIREMENT traveling, and I know that's going to take a lot of money," says a 52-year-old member. "How can I tell if I'm saving enough?"

Members at every stage of their careers have questions about the amount of their SDRS benefits. Authorized agents fielding those questions can direct members to SDRS' online benefits calculator. A feature of the SDRS Web site, www.sdrs.sd.gov, the calculator is a convenient, easy-to-use tool that allows members to estimate benefits under various circumstances.

Calculator a Powerful Planning Resource


Part of *My SDRS*, the secure, members-only area of the SDRS Web site, the calculator automatically uploads the member's name, membership class, months of service and current final average salary. By entering retirement dates, estimates of salary or additional quarters of service, members can determine how a few more years of work, a salary increase or the purchase of additional credited service would affect the amount of their monthly benefit.

The SDRS Web site also offers a link to Ballpark E\$timate, which projects retirement income needs. Members can use the SDRS benefits calculator to estimate the amount of their benefits, then enter that figure into the Ballpark worksheet to figure how much additional income they'll need in retirement. [UpDate](#)

Entering different information, such as projected dates of retirement, in the benefit calculator shows you quickly how your choices can affect the amount of your monthly payment from SDRS.

SOUTH DAKOTA RETIREMENT SYSTEM

Personal Information
Personal Benefits Statement
Service Detail
Contribution Detail
Last 40 Quarters
Retiree Statement
Benefits Calculator
Annuity Information



Personal Retirement Benefit Information Calculator

Member's Name:

The SDRS benefit calculator is a valuable tool to be used in your retirement planning. You can use this tool to estimate the effect various retirement dates, years of credited service and final average salary changes may have on your monthly SDRS benefit.

- Your SDRS retirement benefit will be calculated on the following credited service:

☒ Class A Estimate
 ☐ Class B Public Safety Estimate
 ☐ Class B Judicial Estimate
- Credited Service prior to July 1, 2002:
 (Per last service calculation date of: 6/30/2006)
- Credited Service after July 1, 2002:
 (Per last service calculation date of: 6/30/2006)
- Purchasing Service:** If you are currently purchasing service through a contract with SDRS or if you anticipate purchasing service before your retirement, you may enter the purchased service (in months) for retirement benefit estimate purposes.

Cost of Purchasing Service: [Click here to calculate the current cost of purchasing service.](#)

- Enter the month and year of your last pay date before retirement:

Month / Year
 /
 Month / Year
 /
- Enter the month and year you plan to begin drawing retirement benefits:

Month / Year
 /
- Select:** You may calculate your SDRS retirement benefit by selecting one of the 3 following methods:

☒ (A) Use current Final Average Salary:
 This option will estimate your retirement benefit based on today's dollars.

☐ (B) Project your current final average compensation by a yearly inflation factor:

☒ 2%
 ☐ 2.5%
 ☐ 3%
 ☐ 3.5%

 (This option will inflate your current final average compensation to the last pay date indicated in (5.) above)

☐ (C) Quarterly Salary Adjustment:
 (This option allows you to estimate your final quarters of salary in order to adjust your final average compensation - If you select this option a screen will appear for your completion.)

8.

Your Estimated Monthly SDRS Benefit is calculated to be:

This amount represents an estimate that has been prepared from information provided by you for planning purposes. Your actual retirement benefit will be calculated by SDRS based on your final service and compensation on file at SDRS.

* See note on limitations below.

The percentage of your final average salary that this estimated benefit represents:

The percentage of your income replaced by SDRS is vital information as you plan for retirement. To maintain the same standard of living after retirement that you had while working we estimate that you will need 70 to 85 percent of your final average salary. This percentage is arrived at by combining your SDRS retirement benefit with your Social Security benefit, plus your personal savings and other income.

* Note on limitations:
 Please note that your estimated SDRS retirement benefit may be subject to limitations. IRS Section 415 imposes retirement benefit limitations on high income employees. Please see www.sdrs.sd.gov for an explanation of the Section 415 limitation. Additionally, if you participated in the Bankers Life retirement plan (Regent employees only) prior to 1975, your SDRS benefit may be offset. Please contact SDRS for further information if you believe either of these limitations may apply to you.

Additional Help:
 To further help estimate the amount of personal savings you may require for

Members Must Allow Time to Complete Necessary Steps

Authorized Agents Help Smooth Retirement Process

Members deal directly with SDRS to complete most steps in the retirement process, yet members often turn first to authorized agents with questions and

concerns. Agents can help make the transition into retirement smooth for members, employers and SDRS by encouraging members to plan ahead and

by providing forms and information in a timely fashion. The timeline below shows steps an authorized agent should take in the year before a member retires.



The Agent's Role in the Retirement Process

12 Months Prior to Retirement

Remind your retiring member to

- download the Retirement Quick Reference Guide, available in the Publications area of the SDRS Web site (www.sdrs.sd.gov)
- finalize requests to purchase additional credited service
- choose a retirement date
- attend an SDRS regional retirement planning seminar
- schedule an individual counseling session with SDRS retirement planners

10 Months

Remind member to request a benefit estimate from SDRS. SDRS will also send Form B-2, Applying for SDRS

Retirement Benefits. The member will complete this form and return it to SDRS.

Six Months

Provide your member with Form E-5, Beneficiary Designation, so he or she can review and update his or her designations.

Three Months

Determine whether the employee is eligible for the Special Pay Plan. If he or she is eligible, provide the employee with an SPP participation agreement and 401(a) Special Pay Plan Highlights; assist the employee in completing the agreement.

Effective July 1, 2007 the employer's first-year Special Pay Plan participation fee will be changed to a flat fee of \$45.00 per participant. For further information, consult 401(a) Special Pay Employer Procedures.

One Month

SDRS will contact the authorized agent to request the amount of final pay that will be reported on the contribution report. This figure must be correct in order for SDRS to calculate the member's benefit accurately.

Two Weeks

Complete for each retiring member a copy of Form B-1, Termination of Contributory Service, and send it to SDRS.

Participation Benefits Members and Employers

Special Pay Plan Defers Taxes on Termination Pay

Does the Special Pay Plan apply to your members? If your SDRS unit participates in the plan, retiring employees may be eligible for this tax-saving program.



SPP Provides Savings for Members and Employers

Under the SPP, termination pay — a lump-sum payment for unused vacation or sick leave, a contract buy-out or a retirement incentive — is deposited in a special retirement account set up for each member. SPP deposits are permanently exempt from Social Security tax; plan deposits and earnings are free from federal income taxation until they are withdrawn. Because most retired members will be in a lower tax bracket when they withdraw SPP funds, they may realize additional tax savings.

Like members, employers save money through SPP participation; employers do not make SDRS contributions or pay Social Security taxes on termination pay.

Employer Participation Determines Member Eligibility

SPP participation is limited to employees of SDRS units that have formally enrolled in the program by completing the Resolution to Become an SDRS Special Pay Program Unit, available from the SPP Web site, www.sdrs.sd.gov/spp.

In addition to employer enrollment, there are three eligibility requirements for members' SPP participation:

- The member must be terminating employment.
- The member must be within one month of his or her 55th birthday or older
- The member's termination pay must total at least \$600. >>

SDRS STATE-WIDE INDIVIDUAL COUNSELING SCHEDULE

SCHEDULE DATE	COUNTY	LOCATION	ADDRESS	DEADLINE TO SCHEDULE
June 26, 2007	Bon Homme	Springfield, Community Room	605 8th Street	June 21, 2007
July 10, 2007	Lincoln	Canton, Library	225 N Broadway	July 5, 2007
July 17, 2007	Clark, Codington, Hamlin	Watertown, Ramkota	1901 9th Ave SW	July 12, 2007
July 24, 2007	McCook	Salem, REA Room	236 N Main	July 19, 2007
July 31, 2007	Brown	Aberdeen, Ramkota	1400 8th Ave NW	July 26, 2007
August 7, 2007	Beadle, Sanborn	Huron, Crossroads	100 4th Street	August 2, 2007
August 14, 2007	Yankton	Yankton, Kelly Inn	1607 E Hwy 50	August 9, 2007
August 28, 2007	Spink	Redfield, Senior Center	728 Main Street	August 23, 2007
September 4, 2007	Hughes, Stanley, Sully	Pierre, SDRS Office	222 E Capitol, Ste 8	August 30, 2007
September 18, 2007	Clay	Vermillion, Holiday Inn Express	1200 N Dakota	September 13, 2007
September 25, 2007	Harding, Butte	Belle Fourche, Community Center	1111 National Street	September 20, 2007
October 9, 2007	Bennett, Haakon, Jackson, Jones	Kadoka Fire Hall	102 Main Street	October 4, 2007
October 16, 2007	Davison, Hanson	Mitchell, Holiday Inn	1525 W Havens	October 11, 2007
October 30, 2007	Turner	Parker, Community Building	299 N Main	October 25, 2007
November 13, 2007	Union	Elk Point, Community Room	209 E Main	November 8, 2007
November 20, 2007	Kingsbury, Lake, Miner	Madison, Karl Mundt Library	8th & Egan	November 15, 2007
November 27, 2007	Hand, Hyde	Miller, American State Bank	131 N Broadway	November 22, 2007
December 4, 2007	Lawrence	Spearfish, Holiday Inn	I-90 Exit 14	November 29, 2007
December 11, 2007	Campbell, Walworth	Mobridge, Wrangler Inn	820 W Grand Crossing	December 6, 2007

*Individual retirement counseling sessions must be scheduled before noon on this date.

Special Pay Plan...continued

With the authorized agent's assistance, each eligible employee must complete an SPP participation agreement prior to terminating employment. The member's termination pay will be automatically deposited into an SPP account, up to a maximum deposit of \$45,000 or 100 percent of compensation, whichever is less. Termination pay in excess of the maximum and up to \$16,000 could be placed into a Supplemental Retirement Plan (SRP) account to provide further tax-deferred savings.

Two groups of members receive direct payments for termination pay:

- members whose employers do not participate in the SPP
- all members receiving less than \$600 in termination pay, regardless of whether or not their employers are enrolled in the SPP

In both cases, Social Security taxes are deducted from termination pay, but the employer does not make SDRS contributions on the funds.

UpDate

Reminder

June reports
due by
JULY 15

